

## THE INDONESIAN JOURNAL OF BUSINESS ADMINISTRATION

Vol. 1, No. 4, 2012: 214-219

### BUSINESS STRATEGY TO SERVE SECONDARY MARKET FOR PREMIUM MEDICAL DEVICES BUSINESS IN INDONESIA (PROJECT EAST JAVA- XYZ COMPANY, “A” DIVISION)

Andreas V Bombong, Moh Toha and Agung Wicaksono  
School of Business and Management  
Institut Teknologi Bandung, Indonesia  
[avbombong@gmail.com](mailto:avbombong@gmail.com)

*Abstract— The project is to formulize business strategy for “A” Division to maximize its presence and market share in Secondary Market. The target is to have annual sales of 6 billion rupiah from one projected area only and touch 90% of total healthcare facilities in the area. The Project started from determining desired Area, Key Success Factors, Implementation Plans, Activity Plan, and budget feasibility. The result of data processing combined in business model is the company need to expand to East Java, have business representative in every city of the area, build strong brand identity through training and education to Healthcare Professional, reduce price list in order to be more competitive, and build strategic partnership with Ministry of Health and other professional Infection Organization. From above strategic plans, the project should manage to reach its target. The conclusion is that Secondary Market has big potential that in return will benefit the company if treated correctly. East Java project alone would be able to contribute around 15% of national target for “A” Division in the next 5 years. Recommendation: XYZ to start the project in other potential area like North Sumatera, West and Central Java, South and North Sulawesi, East Kalimantan, and East Indonesia, with Surabaya as the hub of distribution. Further studies regarding local production should be done by XYZ Medical Indonesia to have a better competition landscape in the market, as well as better reception by the policy makers as the product will have high local content.*

**Keywords:** Medical Devices, Business Strategy, Business Model, East Java

#### I. INTRODUCTION

XYZ is an US company in Medical, Consumer Goods, Pharmaceutical, and Diagnostics businesses. It was established in 1887 in the USA by created the first antiseptic surgical drape to prevent post-surgical infection. The product was a breakthrough since the knowledge about infection prevention was not a common practice at the time. The product increased surgical succession rate significantly. The company grows its businesses from US into Europe, Asian, and then the rest of the world through merger and acquisition. It also established manufacturing plants on those regions as a strategy to reach its customer more efficiently. By year 2010 XYZ business value was reported worth over than 250 billion US dollar (Foster,

1999). XYZ Medical Division (XYZ Medical) has been operating in Indonesia since 1974, serving patients through doctors, nurses, and healthcare facilities. As a subsidiary of a US company, XYZ Medical Indonesia is bounded by some of US laws, one of them is Foreign Corrupt Practices Act, or FCPA for short.

The Law said that it is an offence for US person, entity, and certain applicable foreign entities (mainly issuers of securities on a US exchange) to make bribes or offer any inducement for the purpose of obtaining or retaining business with a US firm ([www.fcpa.us](http://www.fcpa.us), 2011). At the same time Indonesia is still considered as country with many corruption problems. In 2008 Transparency International ranks Indonesia at 126 out of 180 countries in the world. This contradictory situation made it difficult for companies like XYZ to utilize its full scale capacity in Indonesia. This is also one of the reasons that XYZ Medical Indonesia is only able to optimally serve around 5% of Indonesia population.

As developing country, health care facilities are still dominated by government, especially in the rural areas. These facilities are funded by government and their spending is done through tenders. As other tender process in Indonesia, the tender process in healthcare is full of conflict of interest, not only from project owners, but also from authorities from where the hospital located. Another problem for healthcare businesses in Indonesia is the limited budget for healthcare. The absence or limited availability of healthcare reimbursement program for the population made medical treatment a luxury thing for many people especially those in small cities and remote areas. The situation is actually pretty much the same worldwide, especially in the developing countries that have medium to low commitment to citizen healthcare. The issues were recognized by XYZ top management, which in year 2010, XYZ Medical decide to concentrate on the less served portion of patients especially in Asia Pacific region. Indonesia would be the pilot project on efforts to touches secondary, even tertiary, market with more commitment. It is align to the company’s spirit to serve one patient at a time and contribute at people’s health around the world.

The questions are, how to do that? What is the Key Success Factors? Will and how the experiences obtained in Indonesia would be applicable to most of the developing countries? Will the experiences would be useful for other business with the same issue?

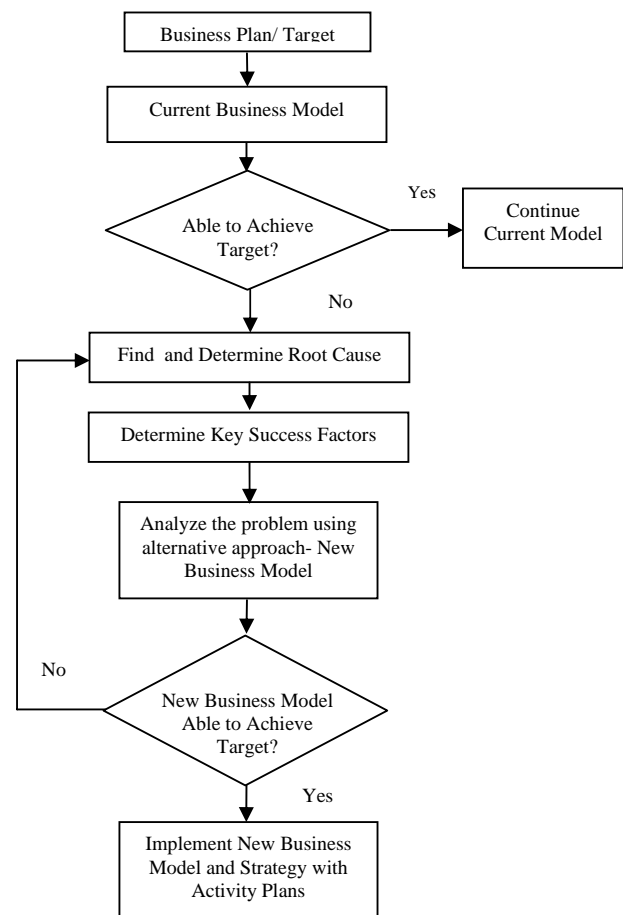
## II. BUSINESS ISSUE EXPLORATION

As discussed in previous chapter, XYZ Medical plans to serve more patients in Indonesia. Especially after the US crises, Asia become the main economy power with its steady growth, strong currency, and relatively stable in terms of political and national situations. Among Asia, Indonesia is strikes back after more than 10 years ago hit by monetary crisis. That is why many foreign companies are willing to invest in the country. As for XYZ Medical Indonesia, this is the right opportunity to boost up its business size with the commitment from the higher management. People investment is made in some projects, like Central Java project and National project. Both projects are focused in highlighting XYZ's presence in healthcare facilities in small cities or areas outside Jakarta and its surroundings

At the strategic planning, the management found some issues related to Indonesia's condition that need to overcome. They are price, product, promotion, and placement. It is a common knowledge that the price of health care products is far above the real production cost since it has to bear not only promotion and shipping cost, but also the cost for continuous research and development to keep up with the increase of complexity of disease, not to mention registration cost for ethical products in every country by health care authority that take a sum of company's resources. The end result of this issue is the price of the products, in this case "A" Division products, is beyond reach of the majority of people, especially those living near to the poverty line in the developing countries like Indonesia. As our responsibility to its customer, patients and health care professionals, "A" Division products are made in a highest quality possible. The use of latest technology and innovative ways made the products have features and benefits to increase safety and comfort of use by doctors and patients. These made the products surpass the requirements set by major regulatory in developed countries. The issue for Indonesia markets are some of the feature is not well known and considered as an extra or tertiary features. The gap between the standard requirements and "A" Division product's features made the products sometimes considered as answer to no question in the customer pint of view. Related to previous issue, "A" Division must commit to do comprehensive promotions to fill in the gap. As ethical products, the marketing team could not arrange any public advertisement. By law, the only promotion allowed for ethical product is professional education to doctors, nurses, and other health care workers. This becomes the issue since competitors are willing to stretch the rules due to lack of enforcement from Medical Council and Ministry of Health.

Transportation is the issue here, since air transports are still very expensive for many people in the region and no infrastructure for such, while sea transportations are not hundred percent dependable due to weather changes and time consumed. The problem for ethical products to reach the customer in remote area is doubled since they need special treatment during the delivery. This resulted in the high price of medicine and medical equipment at remote areas. As the result, the presence of "A" Division Products in Indonesia is strong in big cities with modern and resourceful health care facilities, but weak in the rural areas.

### A. Conceptual Framework



Above is the conceptual framework of the project. From the problem identification at business issues, the project tries to determine root cause, key success factors, and use new business model framework to be able to set Implementation Plan as well as Activity Plan.

### B. Method of Data Collection and Analysis

Data Collection is done in two ways. For primary data collection, it is done through deep interview to Key Opinion Leader in Infection Control. The project also takes fresh data through field survey.

For Secondary data collection, the data is obtain from XYZ Internal Marketing Data and statistical data from World Health Organization, *Biro Pusat Statistik*, and Ministry of Health.

Data Analysis is using qualitative method.

### C. Rootcause determination

Fishbone analysis (six sigma, 2010) is used to try to find the root cause of above trends/ symptoms. In short, those trends for IP Division are

1. For Hand Hygiene Products :Sales Increase are slow / stagnant
2. For Instrument Solution Products: Acceptability to new product still low
3. For Capital Equipment: Penetration to rural health care facilities is difficult

From fishbone above, we could create an external-internal environmental analysis as follows:

Most of the time we cannot totally manage our external environment but anticipate and proactively deal with it. As for Internal environment, a company could manage based on its strategic assets and key competences.

From external and internal environment analysis, the root cause for "A" Division is the existing target market is not enough to achieve XYZ's Business Plan.

Since Target Market is the root cause/ problem of the project, it is important for "A" Division to do Strategic Positioning or Geographical Positioning (Nordhielm, 2006). After the repositioning, the company should analyze in its Business Model to compare ideal and existing condition.

Based on the questions above, the objectives of the project are:

1. To find the most appropriate area where the project will launch.
2. To determine the Key Success Factors based on Business Model analysis
3. To have Strategic and Activity Plan for the project.

### III. BUSINESS SOLUTION

In order to meet the business plan, "A" Division must re-adjust its customer, value proposition, and infrastructure. Root cause that has been found in previous chapter must also be answered.

#### A. Favorable Target Selection

Selecting desired target is done through field survey to potential areas. Potential areas are determined through data analysis from Internal Marketing Data and statistical data from *Biro Pusat Statistik* ([www.BPS.go.id](http://www.BPS.go.id), 2011) and MoH.([www.pdpersi.co.id](http://www.pdpersi.co.id), 2012)

Favorable target selection will select the most appropriate target using need based analysis. It means the selection will based on values "A" Division could offer, customer's importance to specific segments, and how much or satisfactory "A" Division and/or its product could cater those needs.

#### Environmental Analysis for IP products

External	Internal
Numerous competitors	IPD's focus at premium customer
Limited market incomplete knowledge/	complicated requirements for education grants
Awareness substitute solution-antibiotics conflict interest at tenders	Limited coverage by distributor
	unstable quality from India source

#### Favorable Target Selection

Values	"A" DIVISION Score	Central Java		East Java		West Java		North Sumatera		Jakarta Secondary	
		Needs	Score	Needs	Score	Needs	Score	Needs	Score	Needs	Score
Newness	58	1	58	1	58	1	58	3	174	1	58
Performance	78	3	234	7	546	10	780	8	624	4	312
Customization	27	2	54	2	54	2	54	1	27	2	54
Reliability	79	4	316	9	711	5	395	7	553	3	237
Brand	74	8	592	3	222	7	518	5	370	5	370
price	65	10	650	8	520	9	585	6	390	10	650
cost reduction	60	5	300	5	300	4	240	4	240	9	540
Risk Reduction	82	7	574	6	492	3	246	2	164	8	656
Accessibility	60	6	360	4	240	6	360	10	600	6	360
Usability	82	9	738	10	820	8	656	9	738	7	574
		CJ Total	3876	EJ Total	3963	WJ Total	3892	NS Total	3880	JS Total	3811

From above, we could see that East Java ranked number 1, followed by West Java, North Sumatra, Central Java, and Jakarta Secondary market.

If combined with "A" Division strength and weaknesses, which Limited Coverage as one of its

major problem, "A" Division should focus on Java market only that reduced distribution problem, rather than trying to focus in North Sumatera.

As for Jakarta Secondary market, due to its price sensitiveness and the market is already swarmed by

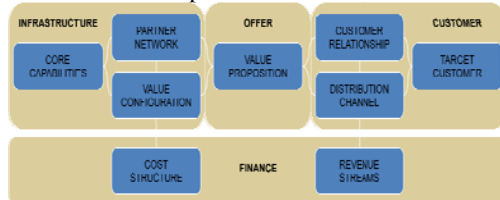
lots of competitors, “A” Division should put its interest and effort on East, Central and West Java first.

But for this final project, **East Java alone would be the center of attention**. The same approach could be done to another potential area.

#### B. Business Model Analysis

The writer chooses to use Alexander Osterwalder framework to find Key Success Factor (Osterwalder, 2010).

The framework is pictured below:



In order to find the Key Success Factors, this business model requires have a start from the most right box, target customer/ customer segmentation. Ideally, a company should serve all type of customers and their different needs. But due to lack of resources, it will choose the most appropriate (profitable) customer segment and will strive to satisfy that segment's desire.

The next step is to rebuild company's value proposition to meet customer's needs. In the distribution channel, the framework ask how to reach the desired customer with the adjusted value proposition, so it will give hints what type of customer relationship should be made with those customers. Based on relationship between offer and customer, the framework will list down revenue generation.

Value proposition must be backed up with the right infrastructure, including core capabilities/ resources, partner network/ key partnership, and value configuration/ key activities. The last thing to check is whether cost structure to build the infrastructure could be maintained that at the end the total business plan will give desired profitability.

Previously East Java has been chosen as favorable segment. The characteristics of healthcare facilities in this particular area are:

1. Small to medium size with less than 150 beds and 4 Operating Theatre/Surgery Room
2. Still using old technology and old practices in patient treatments, especially those in residential area (small cities outside Surabaya)
3. Open to information and willing to change as provided with solid evidence
4. Resourceful with 60-40 composition between government and private facilities.
5. Took 2-12 hours drive from Surabaya to reach the whole East Java with various road condition
6. Served by small distribution agents, every town has its own local distributors.
7. Existing product in infection prevention are antiseptic soap, local and competitor product and small amount of XYZ products. The price is

around 120-140% of price in Surabaya/ Jakarta. The incremental is suspected as margin for local distributors.

As for East Java, values that matter most is **usability, reliability, and price**. It is according to Internal market Survey that already shown in table Favorable Target Selection.

For East Java, the ideal distribution channel should be independent retailers or small-local distributors that exist in each city. Those retailers will be served by main distributor in Surabaya. Area dividing should be made clear among those retailers to ensure minimum conflict among them.

East Java customers are a blend between two. At big cities outside Surabaya like Malang, Madiun, and Jember, customer retention strategy will be appropriate, especially increasing penetration in various departments within healthcare facilities and using more of “A” Division product lines at each department. For smaller cities/ residential area like Banyuwangi, Gresik, Tulungagung, Kediri, and Bojonegoro, “A” Division product line is not well known there. So customer acquisition strategy must be applied there.

In relation with Channel Management, revenue streams for “A” Division should come from main distributors direct activities in Surabaya, retailer activities from cities outside Surabaya, and Sub-distributors winning tender in their respective area.

As for type of revenue streams, most of the revenue comes from transactional revenues, except some healthcare facilities that have “A” Division's capital equipment which requires consumables provided by the company to run. The idea is to maximize recurring revenues as it will ensure future and continuous revenue for the company.

Key Partnership is relationship with other party that will ensure the success of the model. Ministry of Health (MoH) are one of the most important partner that “A” Division must related to. As healthcare regulator, MoH have the importance to increase awareness about Healthcare Associated Infections and “A” Division could be the strategic partner to MoH's program.

Other partnership needed is retailers and sub-distributors in small cities as “A” Division future channel and point of sales. The other is local supplier partner as “A” Division plan to do local production.

Key Success Factors based on Business Model analysis above are:

1. Expand to East Java, to have business representative in over 90% of East Java area.
2. Strong Brand Identity, to be number one in terms of quality and usability at the mind of customers
3. Create stable revenue from new customers. To have contract procurement from most of customer's facilities.
4. Have a more competitive price for “A” Division's product line
5. To liaise with all reputable professional organization in Infection Control

In order to meet above Key Success factors, some Implementation Plan to do is:

1. Reach more customers and increase "A" Division's existence in every city in East Java
2. Strengthen Brand Identity of "A" Division product lines.
3. Change revenue model into regular one.
4. To reduce the price around 30% from current price list.
5. Strengthen partnership with MoH in regard to spreading Infection Control programs throughout Indonesia, especially East Java. Government owned professional association for Infection Control is considered as part of Minister of Health (MoH) initiatives that "A" Division supports.

#### IV. CONCLUSION AND IMPLEMENTATION PLAN

The Project concludes that the desired area is East Java. Having more than 200 hospitals and clinics within 38 cities and residential, the healthcare facilities in the province gives a good acceptance of value propositions offered by "A" division products.

Key Success Factors to achieve the Business Plan/ Target are to expand heavily in East Java using the help of new retailers and sub-distributors in each city, to strengthen Brand Identity through training, seminars, and raising awareness of Infection Prevention that made "A" Division's product become top of mind in the mindset of Healthcare Professionals, to create stabile revenue by having a contract supply with hospitals and clinics, to have a

more competitive price with the same product quality by providing special price for the area or engage local manufacturing in order to reduce importation cost and shorten distribution chain, and to have a harmonize partnership with professional organization in infection control in East Java.

In order to support the key success factors, some Implementation plan must be prepared like Reaching more customer and increase number of channel, do extensive training and education at every city in East Java to have good relationship with Healthcare Professional in each city, to have a good proposal for Hospitals and Clinics that they are willing to have a contract supply with "A" Division, to reduce price around 30% of current list price, and to liaise with Minister of Health in East Java as well as other government bodies and professional organization in Infection Control.

The initial project will take one year period with option to extend the duration if the result is satisfactory.

The sales target for East Java Project is six billion rupiah (IDR. 6,000,000,000.00) for the first year with projected increase 20% a year. The budget for the Project is one billion eight hundred and eighteen million rupiah (IDR 1,818,000,000.00) for the first year and will reduce into around one billion and four hundred fifty million (IDR 1,450,000,000.00) a year in the following years. The biggest expense would be for training and education as it maintain relationship. Below table shows implantation plan with time frame, budget and priority list of the project.

Implementation Plan		Activity Plan		Target	Budget	Duration	Priority
1	Reach more customer and Increase "A" Division products existence	a	Simplify Retailer & sub-distributor's requirement	Localize all approval regarding Retailers and Sub-dist	none	1 month	1
		b	Look for potential retailer and sub-distributor in 38 residential cities in East Java in 38 residential cities in East Java.	100% East Java area surveyed-find 1 prospect per city	200 mil	45 days	1
				"A" 's Retailer and/ or sub distributors present in 90% of East Java's residential cities (Kabupaten/Kotamadya)	38 mil	14 days	2
		c	Ensure Main distributor ready to fully support the project	Delivery performance: 24 hours after PO, workday.	3 % of sales value	2 months	2
				Incentive scheme for performed retailers/ sub dist.	0.5% of sales value	all year	3
2	Strengthen Brand Identity	a	In-house training ad education at hospital premises	IP products become top in mind for 90% of total customer	600 mil	all year	2
		b	Sponsorship for HCP	IP products become top in mind for 90% of total customer	300 mil	all year	2
		c	training for retailers & sub distributors as front line people	100% trained retailer and sub distributor	30 mil	1 weeks	1
3	Change Revenue Model into regular/ recurring revenue	a	Increase number of regular customer	80% of total customer is regular customer	200 mil for accessories	6 months	3
		b	Increase number of Capital Equipment installment base	5 new installation within a year	none	1 year	3
4	Reduce price for "A" Division product lines	a	Look for option to localize production	have local production in the next 4 months	TBA	4 months	4
		b	propose an subsidy from sourcing company for East Java Project.	get approval from sourcing company	none	2 weeks	1

5	Strengthen Partnership with MoH and local govt. authority	a	to liaise with Govt. body in IC at East java	become strategic partner with 3 government body (PERDALIN, HIPPI, PIPSI)	90 mil	all year	4
		b	Join campaign with government hospital regarding Infection Prevention	to do join campaign in 30 government hospitals in 38 cities	150 mil	all year	5

#### ACKNOWLEDGMENT

This paper is written based on the author's final project at MBA ITB supervised by Dr. Ir. Moh Toha and Dr. Agung Wicaksono, M.Sc., MBA. who has been relentlessly motivating the author to accomplish the final project. The author would like to thank Company XYZ where the final project has taken place and Key Opinion Leader that complete the research.

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